ING SPECIAL REPORT

credit where it's due

This information is provided for your education only by ING Financial Advisers, LLC (member SIPC).

The Economic Growth and Tax Relief Reconciliation Act of 2001[1] (EGTRRA) changes the way we calculate our taxes (reducing them!) on three major fronts:

1. **Current taxes** – in the form of lower brackets.
2. **Estate taxes** – lowered each year until phasing out entirely in 2010 – but, unless EGTRRA's "sunset" provisions are repealed, estate taxes return in 2011.
3. **Employer-sponsored retirement plans** – new contribution limits, participant tax credits and other provisions encourage saving in plans such as 403(b)s, 401(k)s, 457(b)s and IRAs.

One (more) great reason to invest in your employer's plan

With respect to these employer plans and IRAs, increased deferral limits – the ability to contribute more to the plan, tax deferred – may not appear to be such a big deal to someone who's barely able to contribute at all, much less up to the maximum allowed by law or your plan. But the federal government's thought of that, too, and EGTRRA included a participant income tax credit, called the Saver's Credit (available from 2002 to 2006), to encourage people with (comparatively) lower and middle incomes to take advantage of these plans. That's great news for folks who know they need to save for retirement, but may be already over-burdened by current financial obligations.

A tax credit works much like a credit you'd get from a store. You use it to reduce your bill. In this case, the tax credit is a direct dollar-for-dollar reduction in the income taxes you owe. A tax credit is more valuable to your bottom-line than a tax deduction, which only reduces the amount of your income that's taxed. In this case, the credit is non-refundable, which means it can't be more than your total tax bill – if you owe less in taxes than your credit is worth, you can't get it refunded – but you can certainly use it to reduce your tax bill as much as possible.

Here's how the new credit works:

- It applies to elective deferrals made to a 401(k), 403(b), or 457(b) plan (or traditional IRA) of up to $2,000, for a maximum credit of $1,000 (see below). It also applies to after-tax contributions made to a 401(k) plan or Roth IRA. The credit does not apply to employer contributions.
- It's in addition to any pretax deferral applicable to the contribution (i.e., the contribution will still reduce your taxable income).
- You can use it if you're at least 18 as of the close of the year, not a full-time student, or not declared as a dependent on someone else's return.
- The amount of the tax credit you're eligible for is based on Adjusted Gross

Filing jointly[2]	Filing as head of household	All other filers	Credit %
Up to $30,000	Up to $22,500	Up to $15,000	50%
$30,001 – $32,500	$22,501 – $24,375	$15,001 – $16,250	20%
$32,501 – $50,000	$24,376 – $37,500	$16,251 – $25,000	10%
$50,000+	$37,500+	$25,000+	Not available

Source: Economic Growth and Tax Relief Reconciliation Act of 2001.

[1] Unless changed or repealed, all provisions of this Act sunset 1/11/11.
[2] Rounded to the nearest whole dollar.

Income (AGI), which is your total income less certain deductions you may qualify for.
- The amount of your contribution available for the tax credit is reduced by any distribution made to you (and your spouse) in the year the credit is claimed, the prior two years, and the gap period between the end of the tax year and the due date for the tax return. (Rollovers and trustee-to-trustee transfers to another plan are not considered distributions.)

The percentage of your credit is determined by the amount of your contribution. Let's see how this pays out in these hypothetical examples:
- Kate is a single administrative assistant, with an AGI of $18,000. She contributes $2,000 to her employer's 401(k) plan – her tax credit is 10 percent of that contribution, or $200.
- Val and Matt are married, filing jointly, with an AGI of $30,000. They contribute $1,000 to the 403(b) offered by the hospital where Matt, a nurse, works. Val, a government worker, contributes $1,000 to her 457(b) Deferred Compensation plan. Their total contribution to the plans is $2,000. Their Saver's Credit reduces their tax bill by $1,000, or 50 percent of that total contribution.
- Miranda is a teacher and single mother, filing as a Head of Household, with an AGI of $23,000. Her $2,000 contribution to her school system's 403(b) reduces her tax bill by $400 – 20 percent of her $2,000 contribution.

Of course, the Saver's Credit is designed to encourage saving among people who don't think they can afford to. If you're already contributing to these plans, don't look at the contribution limit (that qualifies for the credit) as a reason to limit your contributions – the better alternative (for your retirement security) would be to think of the Saver's Credit as an additional opportunity – along with tax-deferral – to save more now for your future while reducing your income tax bill! Remember that all your pretax contributions still reduce your taxable income and AGI, so if you qualify for the Saver's Credit, you'll be ahead on both fronts!

For more information about how you can take advantage of the Saver's Credit and other provisions of EGTRRA, talk to your ING representative, or visit our Web site at **www.ing.com/us**.

10 Great Reasons to Invest in Your Employer's Plan

1. It may help you prepare for retirement
2. It may reduce your current taxable income
3. You may be eligible for the Saver's Credit
4. It gives you access to a wide range of investment options
5. It allows you to invest according to your own strategy and goals
6. It's easy – contributions are payroll deducted
7. You can track your investment by phone or internet
8. With an ING plan, you can track all your online accounts using AccountGateway
9. You'll have access to a wealth of investment education materials
10. You'll invest using Dollar Cost Averaging, a strategy designed to help offset rising and falling markets (Dollar Cost Averaging is not a guarantee of profit or against loss. Consider your ability to continue investing during down-market periods.)